

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SSO-00 INRE-00 NSCE-00 USIE-00

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SP-02 SS-15 STR-04 TRSE-00 FRB-01 ERDE-00 /092 W

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O 221830Z APR 75

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC IMMEDIATE 6206

UNCLAS OTTAWA 1450

E.O. 11652: N/A

TAGS: ENRG, CA

SUBJECT: CANADA'S GAS EXPORT POLICY

1. FOLLOWING IS TEXT OF ARTICLE ON SUBJECT APPEARING APRIL 22 IN TORONTO GLOBE & MAIL, EMPHASIZING SUBSTANCE OF TELEGRAM SENT TO PRIME MINISTER TRUDEAU BY SENATORS JACKSON AND MAGNUSON STATING THEY WERE "DEEPLY DISTURBED" THAT CANADA WAS CONTEMPLATING CHANGES IN ITS GAS EXPORT PRICE.

2. TEXT FOLLOWS:

"A GROUP OF SENIOR U.S. GOVERNMENT OFFICIALS WILL BE IN OTTAWA TODAY FOR TALKS ON PROPOSED PRICE INCREASES ON CANADIAN NATURAL GAS.

"SPOKESMEN IN WASHINGTON SAID THE OFFICIALS ARE 'CONSULTING' WITH CANADIAN ENERGY PERSONNEL RATHER THAN COMPLAINING, ALTHOUGH FEW OFFICIALS IN THE U.S. ADMINISTRATION AGREE THAT CANADA'S EXPORT PRICES SHOULD BE HIGHER.

"THE U.S. GROUP IS BEING LED BY JULIUS KATZ, DEPUTY ASSISTANT  
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SECRETARY OF STATE FOR ECONOMICS AND BUSINESS AFFAIRS.

"HE IS REACTING TO STATEMENTS MADE IN OTTAWA LAST WEEK INDICATING A DRAMATIC INCREASE IN EXPORT PRICES IN IMMINENT.

"(SOME U.S. ENERGY AUTHORITIES EXPECT A NEW PRICE LATER THIS YEAR OF AS MUCH AS \$1.60 A THOUSAND CUBIC FEET, COMPARED WITH THE PRESENT PRICE OF \$1, AND PREMIER DAVID BARRETT OF BRITISH COLUMBIA HAS SAID HE WANTS THE PRICE DOUBLED.)

"MR. KATZ IS ALSO REACTING TO A POLITICAL LOBBY IN WASHINGTON THAT STRONGLY OPPOSES HIGHER PRICES FOR CANADIAN GAS.

"A TELEGRAM SENT TO PRIME MINISTER PIERRE TRUDEAU FROM TWO U.S. SENATORS DURING THE WEEKEND SAID THEY ARE 'DEEPLY DISTURBED' THAT CANADA IS CONTEMPLATING CHANGES IN GAS EXPORT PRICES.

"THE TELEGRAM WAS SIGNED BY WARREN MAGNUSON AND HENRY JACKSON, BOTH DEMOCRATS FROM THE STATE OF WASHINGTON. 'INCREASES AS INDICATED IN CANADIAN NEWSPAPERS 'WILL BE EXTREMELY DETRIMENTAL TO CONSUMERS IN THE UNITED STATES,' THEY SAID.

"IT IS DEEPLY DISTRESSING TO SEE THE CANADIAN FEDERAL GOVERNMENT CONSIDERING UNILATERAL, ABRUPT AND UNFAIR ACTIONS WHICH ARE AIMED SOLELY AT INCREASING THE ECONOMIC BURDEN OF U.S. CITIZENS.'

"THERE ARE PRELIMINARY INDICATIONS THAT THE NATIONAL ENERGY BOARD WILL RECOMMEND TO THE FEDERAL GOVERNMENT A PRICE INCREASE OF BETWEEN 40 AND 60 CENTS A THOUSAND CUBIC FEET ON AUG 1 AND A FURTHER INCREASE NEXT JAN 1. 'CANADA HAS IGNORED FIRM PRICE CONTRACTS AND INCREASED THE PRICE OF NATURAL GAS TO THE U.S. CONSUMERS BY 300 PER CENT OVER THE LAST 18 MONTHS.

"A POSSIBLE PRICE INCREASE TO BETWEEN \$1.40 AND \$1.60 A THOUSAND CUBIC FEET WOULD MEAN A 500 PER CENT INCREASE  
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IN LESS THAN TWO YEARS.'

"THE SENATORS ASKED OTTAWA TO RECONSIDER ANY PROPOSED INCREASE, THAT YOU NOT DISCRIMINATE AGAINST US IN QUANTITIES SUPPLIES, AND THAT CANADA CONSULT WITH THE UNITED STATES IN ADVANCE OF ANY UNILATERAL ACTION WHICH WILL ADVERSELY AFFECT U.S. CONSUMERS AND CAUSE SERIOUS ECONOMIC DISLOCATIONS.

"IN PARTICULAR, WE REQUEST THAT YOUR GOVERNMENT DELAY ANY FURTHER NATURAL GAS EXPORT PRICE INCREASES UNTIL THERE HAS BEEN FULL AND COMPLETE CONSULTATION WITH THE U.S. GOVERNMENT.'

"MEANWHILE, A STUDY BY A WASHINGTON CONSULTING FIRM HAS CONCLUDED THAT THE IMPACT OF REMOVING PRESENT CONTROLS FROM THE WELLHEAD PRICE OF NEW U.S. NATURAL GAS WOULD STILL BE CONSIDERABLY LESS TO THE CONSUMER THAN THE USE OF ALTERNATIVE FUELS.

"THE REPORT, PREPARED BY FOSTER ASSOCIATES INC. SAID THAT IF LEGISLATION TO REMOVE FEDERAL CONTROLS HAD BEEN ENACTED LAST JANUARY, EXISTING LONG TERM CONTRACTS WOULD SUBSTANTIALLY HAVE PROTECTED CONSUMERS FROM A MAJOR PRICE INCREASE.

"THIS STUDY INDICATES THAT, WITH PRICE CONTROLS REMOVED, THE AVERAGE ANNUAL INCREASE IN COSTS TO THE RESIDENTIAL CONSUMER WOULD ONLY BE IN THE RANGE OF \$9.24 AFTER THE FIRST FULL YEAR, \$12.60 IN 1977 AND \$13.98 IN 1978.'

"THE FEDERAL ENERGY ADMINISTRATION RECENTLY ESTIMATED THAT ELIMINATION OF PRICE CONTROLS WOULD MEAN ANNUAL PRICE INCREASES TO U.S. CONSUMERS OF \$10.21 IN 1976, \$13.30 IN 1977 AND \$19.15 IN 1978.

"THESE ESTIMATES ARE MINOR IN COMPARISON TO THE COST CONSUMERS WILL FACE IF NATURAL GAS IS UNAVAILABLE, AND THEY MUST TURN TO THE HIGHER PRICED ALTERNATIVE FUELS,' THE STUDY SAYS.

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"OFFICIALS IN THE U.S. ENERGY FIELD HAVE ESTIMATED THAT THE AVERAGE PRICE ON INTRASTATE GAS ON ENTERING A CITY'S DISTRIBUTION SYSTEM (THE CITY-GATE PRICE) IS 67.19 CENTS A THOUSAND CUBIC FEET.

"THAT IS 10.81 CENTS A THOUSAND CUBIC FEET BELOW THE AVERAGE CITY GATE PRICE OF 78 CENTS BEING CHARGED IN CANADA.

"SINCE CANADA ONLY SUPPLIES BETWEEN 6 AND 7 PER CENT OF THE GAS CONSUMED IN THE UNITED STATES, EVEN A PRICE INCREASE OF 60 CENTS A THOUSAND CUBIC FEET WOULD NOT HAVE A MAJOR OVER-ALL EFFECT.

"HOWEVER, IT WOULD BE SIGNIFICANT TO THE PACIFIC NORTH-  
WEST, WHICH RELIES ON CANADA FOR THE MAJOR PART OF ITS  
SUPPLY." END TEXT  
PORTER

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PRESS COMMENTS, PETROLEUM, POLICIES, EXPORT PRICES  
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**Decaption Date:** 01 JAN 1960  
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**Review Authority:** ShawDG  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 24 NOV 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <24 NOV 2003 by MaustMC>; APPROVED <30 DEC 2003 by ShawDG>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
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**Status:** NATIVE  
**Subject:** CANADA'S GAS EXPORT POLICY  
**TAGS:** ENRG, CA, US  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006